

# MEDICARE & YOU



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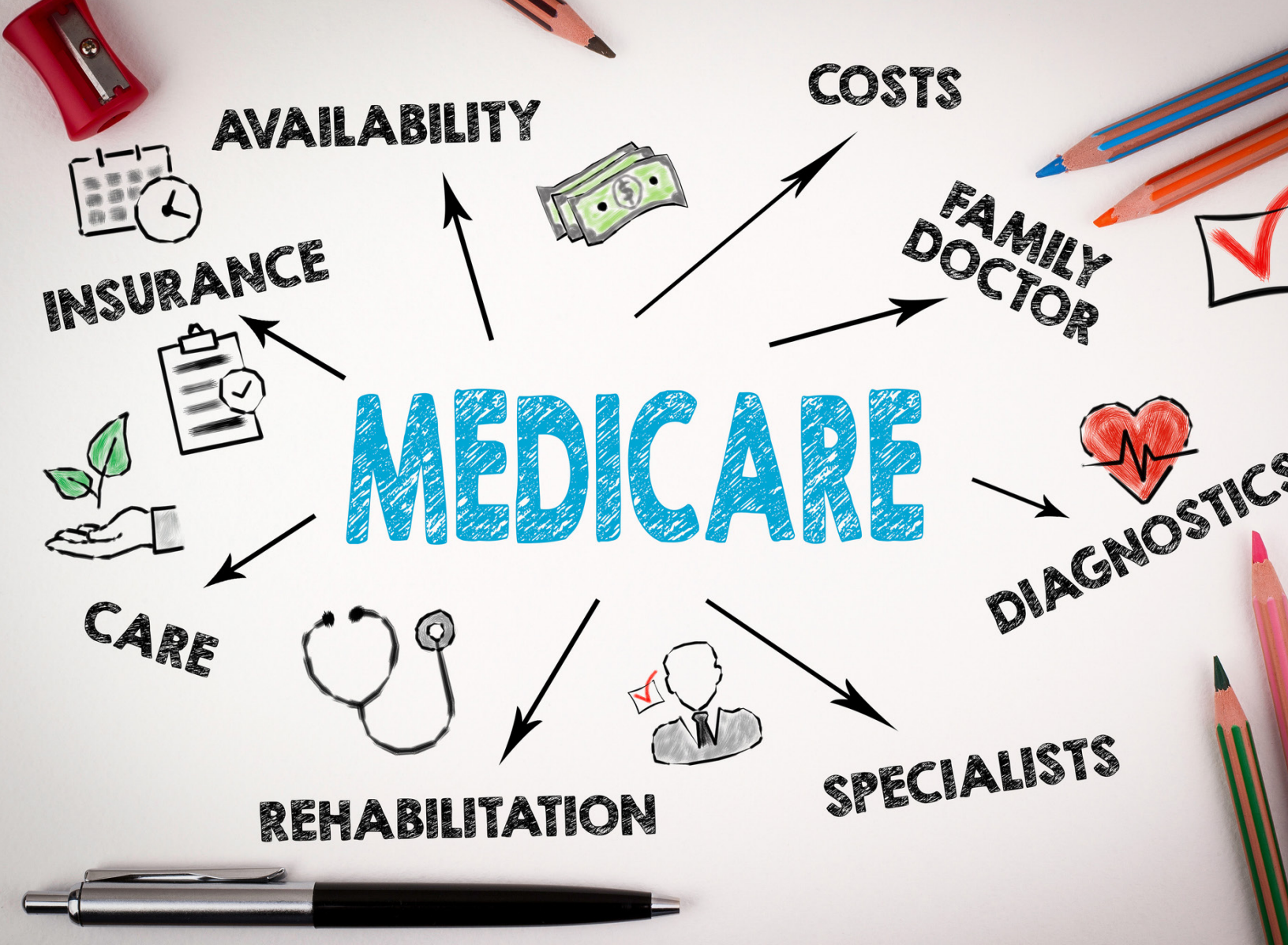


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## 10 MYTHS ABOUT MEDICARE

# INTRODUCTION

When it comes to Medicare, there is a lot of inaccurate information out there. If you are approaching your 65th birthday, you want to have your Medicare facts straight. Because what you don't know – or misunderstand – could cost you. The common myths explained below can help you protect your retirement finances and plan your future health care spending.

If you're in doubt about your Medicare options and future health care costs, you'd do well to see an experienced financial advisor who can help you take into account the rising cost of health care in your retirement planning.





## MYTH #1: MEDICARE IS FREE HEALTH CARE

Let's start with the biggest Medicare myth of them all.

Despite what many people believe, Medicare is not free. To understand why, let's look at the four parts of Medicare.

### **Part A: Provides coverage for hospital visits**

Part A is a "free" government program – but only if you paid Medicare payroll taxes for 10 years. Other people will either pay the full monthly premium or a discounted monthly premium, depending on their Medicare payroll tax history. While with Part

A, you may qualify to have no premium, you will still have a deductible, copay and coinsurance.

### **Part B: Provides coverage for medical services, such as doctor and outpatient visits and associated services.**

This is another government program, but it requires paying a premium, which is subject to change each year. In 2020, most people paid a standard amount of \$144.60 per month.<sup>1</sup>

### **Part C: Also known as Medicare Advantage plans**

Available through private insurance companies as an alternative to the government's program, Medicare Advantage (Part C) may offer low- to no-cost premiums, but they also will include other costs.

To be eligible, you must enroll in both Part A and Part B. In other words, you must still pay for Part B each month.

### **Part D: Provides prescription drug coverage**

Part D is available for a premium through private insurance companies as a stand-alone plan or by enrolling in a Medicare Advantage plan that includes prescription drug coverage.

1) "The Truth Behind the Biggest Medicare Myths" – Advise Insurance, Oct. 7, 2020:  
<https://www.adviseinsurance.com/en/resources/medicare-myths>





## MYTH #2: MEDICARE COVERS ALL YOUR MEDICAL EXPENSES

While Medicare will pay for doctors' visits and hospital costs, it may not cover all of your prescription drug expenses, deductibles and co-payments, most dental care, routine vision care, routine hearing exams or hearing aids.

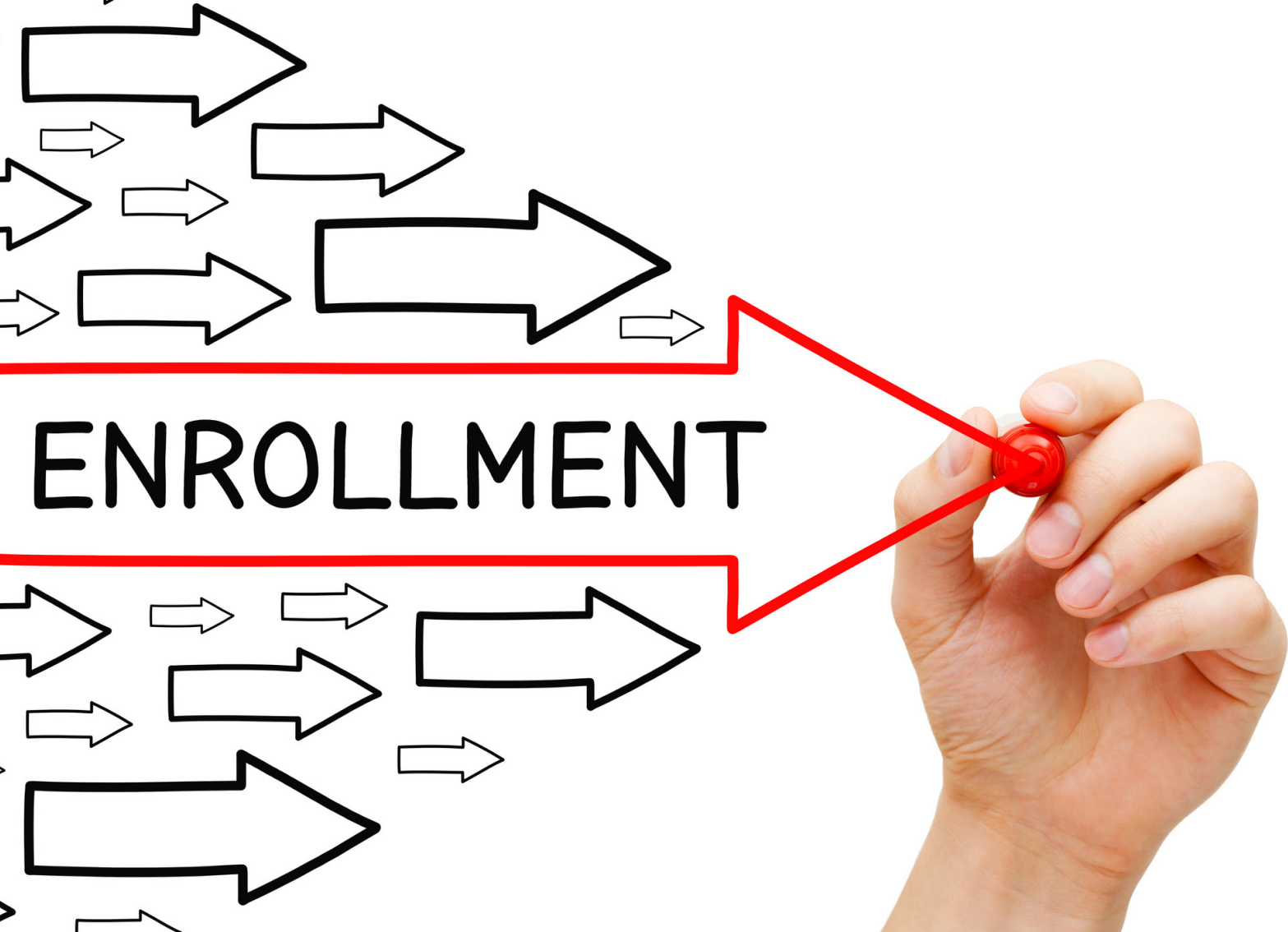
"Many people assume Medicare will cover all your health care costs in retirement, but it doesn't," says Steve Feinschreiber, senior vice president of the Financial Solutions Group at Fidelity. "We estimate that about 15% of the average retiree's annual expenses will be used for health care-related expenses, including Medicare premiums and out-of-pocket expenses."<sup>1</sup>

This should serve as a wake-up call to start taking into account rising health care costs when you retire. The good news is that there are ways to save for the rising cost of health care in a tax-advantaged way.

1. "How to plan for rising health care costs" – Fidelity Investments, 08/03/2020: <https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs#:~:text=How%20much%20is%20needed%20for,health%20care%20expenses%20in%20retirement>.

2. "The Triple Tax Benefit of Health Savings Accounts" – By Kate Stalter, U.S. News & World Report: <https://alphafa.com/the-triple-tax-benefit-of-health-savings-accounts/>





## MYTH #3: YOU ARE AUTOMATICALLY ENROLLED IN MEDICARE

For the most part, this is not true. Enrollment in Original Medicare (Part A and B) is automatic *only* if you are already collecting some form of Social Security (either retirement benefits or disability benefits). If that's the case, you don't need to do anything. You'll get a "Welcome to Medicare" packet three months before your 65th birthday. It includes a letter, booklet, and Medicare card. The booklet explains important decisions you need to make now that you have Medicare.

If you are not collecting Social Security when you become eligible for Medicare, you must enroll

through the Social Security office. If you want Medicare Part D prescription drug coverage, you must also actively enroll in it yourself. It won't automatically be done for you.

Also keep in mind, if your spouse is enrolled in Medicare, you are *not* automatically enrolled too. Unlike health insurance provided by an employer, Medicare does not allow you to receive coverage through your spouse. In order to receive Medicare Part A and B coverage, you must apply for it individually.



## MYTH #4: YOU CAN APPLY FOR MEDICARE AT ANY TIME

False. You can enroll in Medicare if you meet certain qualifications and for a specific amount of time. There are rules for each of these enrollment periods, and if you fail to adhere to them, you could end up paying financial penalties.

### **Retiring at 65**

If you plan to retire at age 65, your chance to sign up for Medicare Part A and B runs for 7 months, which includes the 3 months before the month in which you turn 65, your birthday month, and the 3 following months.

### **Working past 65**

Many people continue to work and receive health care coverage through their employers past the

age of 65 – meaning they don't need Medicare coverage yet. In this scenario, you most likely qualify for a Medicare Special Enrollment Period. The Special Election Period allows you to defer your Medicare application until your current health care coverage through your employer expires, or you retire. At that point, you have an 8-month window to enroll in Medicare Part A and B.

Remember – if you fail to enroll in Medicare Part A and B during your initial 7-month window, and don't have equivalent health insurance through an employer or spouse – you can be subject to penalties in the form of increased premiums when you do enroll in Medicare.





## MYTH #5: I CAN'T SIGN UP FOR MEDICARE BECAUSE OF POOR HEALTH

Not true. Medicare coverage is a function of Social Security benefits, not your health. You are eligible to receive Medicare Part A and B when you turn 65 or retire. Medicare can't deny you that coverage because you're sick or have a pre-existing condition. It can't raise your rates due to poor health either. It is the same with Medicare Advantage plans too.

However, as already mentioned, there are penalties for not signing up at the right time and a possible additional cost depending on your income, but you can't be denied Medicare coverage because of health issues. You'll need to know when to sign up, however, as you are not automatically enrolled in Medicare.



## MYTH #6: MEDICARE COSTS THE SAME FOR EVERYONE

Not true. The exact amount you will pay for Medicare depends on the specific Medicare coverage you have, the health services and items you use each year, and whether or not you have financial assistance for Medicare. Here are some of the variables involved:

- Your premium for Part A depends on your Medical payroll tax status.
- Your premium for Part B depends on your income. There is a standard Part B premium everyone pays. However, the higher your income, the more you will pay above the standard premium.

- The out-of-pocket costs for Part D and Medicare Advantage depend on the plan you choose. However, people with higher incomes will pay higher premiums for Part D.

You can ask Social Security to adjust your premium if a “life-changing event” caused significant income reduction or financial disruption in the intervening tax year – for example, if your marital status changed, or you lost a job, pension or income-producing property.



## MYTH #7: MEDICARE COSTS AND COVERAGE WON'T CHANGE

The truth is every year Medicare evaluates the cost of care and makes adjustments. Sometimes, costs go down. But often, the cost of premiums and deductibles goes up. For example, in 2021, the agency increased the standard Part B premium amount from \$144.60 to \$148.50.<sup>1</sup>

Coverage can also change from year to year, especially for Medicare Advantage and Part D plans.

Medicare and your current plan, if you have extra coverage, will send notices each year about your cost and coverage. Open Enrollment is the time to review this information and make changes if necessary.

1. "Part B costs" – [medicare.gov](https://www.medicare.gov/your-medicare-costs/part-b-costs), accessed Jan. 2021:  
<https://www.medicare.gov/your-medicare-costs/part-b-costs>





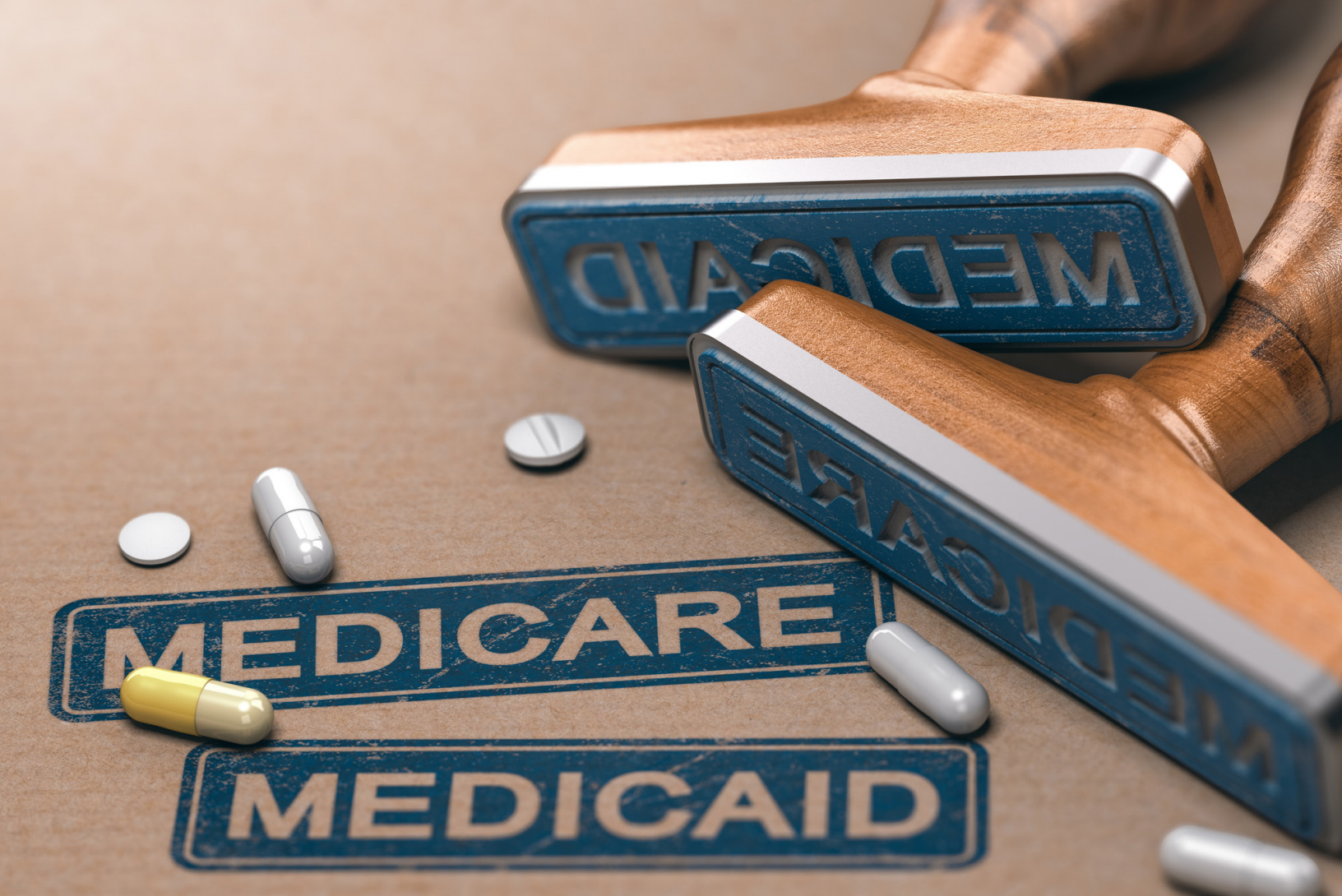
## MYTH #8: MEDICARE ONLY COVERS PEOPLE 65 YEARS AND OLDER

Most people associate Medicare with health coverage for senior citizens. However, certain younger people also qualify for Medicare benefits.

**You qualify for full Medicare benefits under age 65 if:**

- You have been entitled to Social Security disability benefits for at least 24 months (that need not be consecutive).
- You receive a disability pension from the Railroad Retirement Board and meet certain conditions.
- You have Lou Gehrig's disease, also known as amyotrophic lateral sclerosis (ALS), which qualifies you immediately.
- You have End Stage Renal Disease (ESRD – permanent kidney failure requiring dialysis or transplant).





## MYTH #9: MEDICARE AND MEDICAID ARE BASICALLY THE SAME

This is not true. It's easy to confuse Medicare and Medicaid because both are government programs, and both programs help people pay for health care. But that's where the similarities end.

### Here are some differences:

- Medicare is generally for people who are older or disabled. Medicaid is for people with limited income and resources.
- Medicare is governed by the federal government. Medicaid is a joint program between

the federal government and the states. The federal government sets qualifying income and resource levels for Medicaid, but each state decides what counts when calculating this for an individual.

To complicate matters, it's possible to qualify for both Medicare and Medicaid. People who qualify for both are said to be "dual eligible." If you qualify and enroll in both programs, then the two may work together to cover most of your health care costs.



## MYTH #10: MEDICARE COVERS LONG-TERM NURSING HOME AND IN-HOME HEALTH CARE COSTS

This is not true to any meaningful degree because Medicare doesn't cover long-term care that lasts longer than 100 days. Any care after that must be paid out of pocket.

According to the U.S. Department of Health and Human Services, someone turning 65 today has almost a 70% chance of needing some type of long-term care services and supports in their remaining years. On average, women need 3.7 years of care while men need 2.2 years.<sup>1</sup>

Unfortunately, the expense of long-term care can be quite high. The cost varies based on care setting, geographic location of care and level of care required, among other things. According to long-term care insurer Genworth, national median costs for long-term care range from \$4,481 per month for in-home homemaker services to \$8,821 per month for a private room in a nursing home.<sup>2</sup>

What it boils down to is that a good retirement plan should take into account the possibility of needing to pay for long-term care. One way to pay

for the cost is through long-term care insurance. It's best to start early, because the sooner you get started, the lower the premiums will be.

Another way is to self-insure by saving the money you might need. One of the best ways to self-insure is through a Health Savings Account (HSA). Not only does the money you invest in an HSA grow tax-free, but you can also take out money in retirement to pay for medical expenses without paying any taxes on it.

The bottom line is that you need to be prepared for any possibility. You may feel healthy today, but you never know what's lurking down the road. Preparing for unexpected health care costs is something a knowledgeable financial advisor can help you with – as he/she knows how to implement strategies that could save you from added stress and debt later on.

1. "How Much Care Will You Need?" – U.S. Department of Health and Human Services, Oct 15, 2020: <https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html>

2. Monthly Median Costs: National (2020): <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>



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